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華潤啤酒(控股)有限公司

China Resources Beer (Holdings) Company Limited

(Incorporated in Hong Kong with limited liability)

(Stock Code: 291)

INTERIM RESULTS

FOR THE SIX MONTHS ENDED 30 JUNE 2016

- Unaudited turnover and attributable profit of the Group's continuing operations (the Group disposed of its non-beer businesses on 1 September 2015) amounted to approximately RMB15,213 million and RMB605 million respectively, representing a decrease of 1.8% and an increase of 45.1%
- The Board has resolved not to declare an interim dividend

FINANCIAL HIGHLIGHTS

	2016 (Unaudited) RMB million	2015 (Unaudited and Restated) ¹ RMB million
For the six months ended 30 June		
Turnover		
- continuing operations	15,213	15,499
- discontinued operations ²	-	59,398
Elimination of inter-segment transactions	-	(76)
	<u>15,213</u>	<u>74,821</u>
Profit/(loss) attributable to shareholders of the Company		
- continuing operations	605	417
- discontinued operations ²	-	(3,837)
	<u>605</u>	<u>(3,420)</u>
Basic and diluted earnings/(losses) per share ⁴		
- continuing operations	RMB 0.23	RMB 0.16
- discontinued operations ²	-	RMB (1.45)
	<u>RMB 0.23</u>	<u>RMB (1.29)</u>
Interim dividend per share	Nil	Nil
	At 30 June 2016 (Unaudited) RMB million	At 31 December 2015 (Unaudited and Restated)¹ RMB million
Equity attributable to shareholders of the Company	10,660	10,056
Non-controlling interests	9,854	9,264
Total equity	<u>20,514</u>	<u>19,320</u>
Consolidated net cash/(borrowings)	7	(2,690)
Gearing ratio ³	Net cash	13.9%
Current ratio	0.66	0.59
Net assets per share - book value	<u>RMB 4.38</u>	<u>RMB 4.13</u>

Notes:

1. With effect from 1 January 2016, the Company changed the currency in which it presents its financial results and position from Hong Kong dollars to Renminbi.
2. The Group disposed of its non-beer businesses on 1 September 2015. These businesses are presented as discontinued operations according to the Hong Kong Financial Reporting Standard 5.
3. Gearing ratio represents the ratio of consolidated net borrowings to total equity.
4. Earnings/(losses) per share have been adjusted for the bonus element of the rights issue following the allotment and issuance of 811,044,226 fully paid right shares on 18 August 2016 pursuant to the right issue as announced by the Company on 6 July 2016, and prior period comparative has also been restated for such effect.

ANALYSIS OF TURNOVER AND EARNINGS BEFORE INTEREST AND TAXATION

	Turnover		Earnings before interest and taxation	
	Six months ended 30 June		Six months ended 30 June	
	2016	2015	2016	2015
	(Unaudited)	(Unaudited and Restated)	(Unaudited)	(Unaudited and Restated)
	<i>RMB million</i>	<i>RMB million</i>	<i>RMB million</i>	<i>RMB million</i>
Continuing operations				
Eastern region	7,840	7,957	762	675
Central region	3,662	3,793	227	108
Southern region	3,711	3,749	700	408
Beer	15,213	15,499	1,689	1,191
Net corporate expenses	-	-	(32)	(9)
	15,213	15,499	1,657	1,182
Discontinued operations	-	59,398	-	(3,658)
Elimination of inter-segment transactions	-	(76)	-	-
Total	15,213	74,821	1,657	(2,476)

CHAIRMAN'S STATEMENT

HALF-YEAR RESULTS

In the first half of 2016, the Group continued to step up its strategic development by laying a solid foundation for greater value creation in the future. Following the “subtraction” method to dispose all of its non-beer businesses to its parent company, China Resources (Holdings) Company Limited (“CRH”), and having obtained support from 98.84% of voted independent shareholders in 2015, the Company applied the “addition” method to create more value for stakeholders in March 2016. This was achieved through an agreement with Anheuser-Busch InBev SA/NV (“ABI”) to acquire 49% stake of China Resources Snow Breweries Limited (“CRSB”) from SABMiller Asia Limited (“SABMiller Asia”), for a consideration of US\$1.6 billion (“proposed acquisition of minority interests”) (The transaction is subject to the completion of ABI’s acquisition of SABMiller PLC).

Upon completion of the transaction, CRSB will become a wholly-owned subsidiary of the Company. We believe the transaction would benefit the Company and the shareholders as a whole. It will give the Company full ownership of CRSB and ensure effective implementation of its growth strategies. Furthermore, the full consolidation of CRSB at the Company level following the transaction will avoid the value leakage associated with a sizable minority interest, and increase transparency in its finances to shareholders. In addition to the value creation to shareholders upon the proposed acquisition of minority interests, the Group believes that greater financial flexibility is required for its future development and the capture of any expansion opportunities. In July 2016, the Company announced the launch of a fully underwritten rights issue (“Rights Issue”) to raise approximately HK\$9.5 billion before expenses, on the basis of one rights share for every three existing shares, to strengthen its capital base. The net proceeds will be used to partially fund the proposed acquisition of minority interests, as well as for working capital and other general corporate purposes.

For the six months ended 30 June 2016, the turnover and attributable profit of the Group’s continuing operations decreased by 1.8% and increased by 45.1% respectively to approximately RMB15,213 million and RMB605 million as compared with the same period previous year.

INTERIM DIVIDEND

The Board has resolved not to declare an interim dividend for the six months ended 30 June 2016 (2015: none).

STRATEGY IMPLEMENTATION

During the period under review, the beer industry was affected by lingering macro-economic weakness in China, as well as the floods in the mid-lower reaches of the Yangtze River and parts of southern China in the second quarter of 2016.

In face of the adversity as mentioned above, the Group continued to enhance economies of scale, elevate its product mix, and maintained close communications with channel distributors and point of sales to gain insights on market changes. The Group also achieved stable growth momentum in the overall market share by focusing resources on its flagship brand “雪花 Snow”, the best-selling beer brand in China for consecutive years, to penetrate into various cities in China. Taking into account the unfavourable factors of the industry during the period under review, the Group managed to improve profitability by raising cost efficiency and implementing tighter controls on

expenses. The industry remains competitive, the savings in selling expenses in the first half of 2016 may not be sustainable in the rest of the year.

Meanwhile, the Company announced a proposed Rights Issue in July 2016, which offered existing shareholders a fair and equal opportunity to participate in the Company's long-term development without having their shareholding diluted. The Rights Issue was fully underwritten by the CRH (Beer) Limited ("CRH Beer"), the Company's controlling shareholder and a fully-owned subsidiary of CRH. This demonstrated CRH Beer's confidence in and commitment to the Company's future and growth prospects. The Rights Issue will benefit the Company and shareholders as a whole, and will serve as a cornerstone for future development. According to the Company's announcement about the results of the Rights Issue on 17 August 2016, dealings in the rights shares, in the fully-paid form, was commenced on The Stock Exchange of Hong Kong Limited at 9:00a.m. on 19 August 2016.

PROSPECTS

Since 2015, the Company had undertaken a series of actions that commenced with the disposal of its non-beer businesses to its parent company, CRH, which removed the associated short-term uncertainty in outlook without detriment to shareholders and unleashed the value of its beer business. Subsequently, the Company entered into an agreement with ABI for the proposed acquisition of minority interests, which would enable more flexible operations and faster decision-making for the Company. The latest move is the Rights Issue to prepare the Company for further growth. All these efforts reflect the Company's emphasis on making its stakeholders' long-term benefit as a top priority, and on striving to deliver greater returns to them.

China is the world's biggest beer market by sales volume and the beer industry is in a transitional stage, we expect a slower growth in sales volume than before and progressive consumption upgrades in the future, and believe that the relevant changes will benefit the long-term development of the industry. Moreover, given the potential opportunity for further industry consolidation, we are confident in our future development. Riding on the Group's track record in mergers and acquisitions, we will evaluate potential investment opportunities to expand our business and extract value through synergies. The Group trusts that it will deliver sustainable profit growth and improvement in the return on its assets to shareholders in the future, thanks to its leading position in the industry and its strategy on continuing product premiumization which aligns with the industry transformation.

APPRECIATION

On behalf of the Board of Directors, I would like to take this opportunity to express my gratitude to our shareholders for their support, our management and employees for their commitment and contributions, as well as customers and business partners for their trust. Looking ahead, we will continue to offer higher quality products to our customers and deliver greater returns to our shareholders.

CHEN LANG
Chairman

Hong Kong, 19 August 2016

2016 INTERIM RESULTS

The Directors of China Resources Beer (Holdings) Company Limited (the “Company”) are pleased to announce the unaudited consolidated results of the Company and its subsidiaries (the “Group”) for the six months ended 30 June 2016 as follows:

CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT

For the six months ended 30 June			
		2016 (Unaudited)	2015 (Unaudited and Restated)
	Notes	RMB million	RMB million
Continuing operations			
Turnover	7	15,213	15,499
Cost of sales		(10,093)	(10,305)
Gross profit		5,120	5,194
Other income	8	296	333
Selling and distribution expenses		(2,432)	(2,870)
General and administrative expenses		(1,301)	(1,402)
Finance costs	9	(80)	(73)
Profit before taxation		1,603	1,182
Taxation	10	(383)	(346)
Profit for the period from continuing operations	11	1,220	836
Discontinued operations			
Loss for the period from discontinued operations		-	(4,303)
		1,220	(3,467)
Attributable to:			
Shareholders of the Company			
Continuing operations		605	417
Discontinued operations		-	(3,837)
		605	(3,420)
Non-controlling interests		615	(47)
		1,220	(3,467)
Earnings/(losses) per share	13		
From continuing and discontinued operations			
Basic		RMB 0.23	RMB (1.29)
Diluted		RMB 0.23	RMB (1.29)
From continuing operations			
Basic		RMB 0.23	RMB 0.16
Diluted		RMB 0.23	RMB 0.16
From discontinued operations			
Basic		-	RMB (1.45)
Diluted		-	RMB (1.45)

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	For the six months ended 30 June	
	2016	2015
	(Unaudited)	(Unaudited and Restated)
	<i>RMB million</i>	<i>RMB million</i>
Profit/(loss) for the period	<u>1,220</u>	<u>(3,467)</u>
Other comprehensive income/(expenses):		
Items that may be reclassified subsequently to profit or loss:		
Exchange differences on translating foreign operations	(13)	2
Fair value adjustment on available for sale investments	(1)	3
Reclassification adjustment:		
– release of valuation reserve upon disposal of available for sale investments	<u>1</u>	<u>(5)</u>
Other comprehensive expenses for the period, net of tax	<u>(13)</u>	<u>-</u>
Total comprehensive income/(expenses) for the period	<u>1,207</u>	<u>(3,467)</u>
Attributable to:		
Shareholders of the Company	604	(3,423)
Non-controlling interests	<u>603</u>	<u>(44)</u>
	<u>1,207</u>	<u>(3,467)</u>
Total comprehensive income/(expenses) for the period attributable to shareholders of the Company arising from:		
Continuing operations	604	418
Discontinued operations	<u>-</u>	<u>(3,841)</u>
	<u>604</u>	<u>(3,423)</u>

CONDENSED CONSOLIDATED BALANCE SHEET

		At 30 June 2016	At 31 December 2015
		(Unaudited)	(Unaudited and Restated)
	Notes	RMB million	RMB million
Non-current assets			
Fixed assets			
- Interests in leasehold land held for own use under operating leases		3,182	3,134
- Other property, plant and equipment		17,926	18,255
Goodwill		8,326	8,326
Other intangible assets		182	194
Available for sale investments		8	10
Prepayments		244	158
Deferred taxation assets		1,687	1,655
		31,555	31,732
Current assets			
Stocks		6,077	6,488
Trade and other receivables	14	1,607	1,531
Taxation recoverable		39	90
Pledged bank deposits		109	125
Cash and bank balances		4,429	2,802
		12,261	11,036
Current liabilities			
Trade and other payables	15	(17,596)	(16,778)
Short term loans		(855)	(1,778)
Taxation payable		(139)	(194)
		(18,590)	(18,750)
Net current liabilities		(6,329)	(7,714)
Total assets less current liabilities		25,226	24,018
Non-current liabilities			
Long term loans		(3,676)	(3,839)
Deferred taxation liabilities		(302)	(258)
Other non-current liabilities		(734)	(601)
		(4,712)	(4,698)
		20,514	19,320
Capital and reserves			
Share capital		5,941	5,941
Reserves		4,719	4,115
Equity attributable to shareholders of the Company		10,660	10,056
Non-controlling interests		9,854	9,264
Total equity		20,514	19,320

Notes:

1. Independent review

The interim results for the six months ended 30 June 2016 are unaudited and have been reviewed by the Company's Audit Committee.

2. Key events

On 2 March 2016, the Company and Anheuser-Busch InBev SA/NV ("ABI") entered into a sales and purchase agreement to acquire the 49% equity interest in China Resources Snow Breweries Limited ("CRSB"), a company currently owned as to 51% by the Company and 49% by SABMiller Asia Limited ("SABMiller"), at a total consideration of US\$1,600 million (equivalent to approximately HK\$12,440 million), upon the terms and subject to the conditions set forth in the sales and purchase agreement. The consideration is expected to be satisfied by the Company in cash by proceed of rights issue as mentioned in Note 3 to the financial information and unsecured standby shareholder's loan(s) of up to a maximum aggregate amount of HK\$10 billion (No amount has been drawn down as of date of this announcement) from China Resources (Holdings) Company Limited ("CRH"), at an interest rate that CRH is able to borrow Hong Kong dollars in an amount equal to the relevant loan from a bank or a financial institution. Upon completion, CRSB will become a wholly-owned subsidiary of the Company. The acquisition is subject to completion of the acquisition of SABMiller by ABI. Management expected the acquisition will be completed in the second half of 2016.

3. Events after reporting period

On 6 July 2016, the Company announced a proposal to raise approximately HK\$9,514 million, before expenses, by way of a rights issue of 811,044,226 shares at a subscription price of HK\$11.73 per rights share, on the basis of one rights share for every three ordinary shares. The rights shares were subsequently allotted and issued on 18 August 2016. The rights issue was fully underwritten by CRH (Beer) Limited, the immediate holding company of the Group.

As a result, the earnings/(losses) per share has been adjusted and prior period comparative has also been restated for such effect.

4. Basis of preparation

The interim results announcement has been presented in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

A full set of unaudited condensed consolidated interim financial statements for the six months ended 30 June 2016 ("interim financial information") which has been prepared in accordance with Hong Kong Accounting Standard 34 "Interim Financial Reporting" will be published as soon as practicable.

The financial information relating to the year ended 31 December 2015 that is included in the condensed consolidated interim financial information for the six months ended 30 June 2016 as comparative information does not constitute the Company's statutory annual consolidated financial statements for that year but is derived from those financial statements. Further information relating to these statutory financial statements required to be disclosed in accordance with section 436 of the Hong Kong Companies Ordinance (Chapter 622 of the laws of Hong Kong) (the "Companies Ordinance") is as follows:

The Company has delivered the financial statements for the year ended 31 December 2015 to the Registrar of Companies as required by section 662(3) of, and Part 3 of Schedule 6 to, the Companies Ordinance.

The Company's auditor has reported on those financial statements. The auditor's report was unqualified; did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying its report; and did not contain a statement under sections 406(2), 407(2) or (3) of the Companies Ordinance.

5. Principal accounting policies

The accounting policies used in the preparation of the interim financial information are consistent with those used in the annual financial statements for the year ended 31 December 2015, except for the adoption of certain new and revised standards, amendments and interpretations (new “HKFRSs”) issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”), which are effective for the Group’s financial year beginning 1 January 2016, and the change in presentation currency and segment information as set out in note 6 and note 7 respectively.

The adoption of these new and revised standards, amendments and interpretations has had no material effect on the results or financial positions of the Group for the current and prior accounting periods. Accordingly, no prior period adjustments are required.

The Group has not early applied the new standards, amendments and interpretations that have been issued by the HKICPA but are not yet effective. The Group has already commenced an assessment of the impact of these new and revised standards and amendments but is not yet in a position to determine whether these new and revised standards and amendments would have a material impact on its results of operations and financial position.

6. Change in presentation currency

Since the completion of the disposal of non-beer businesses, the Group’s revenues, profits and cash flows are primarily generated from beer operation in China of which the functional currency is Renminbi (“RMB”), and are expected to remain principally denominated in RMB in the future. The Company determined that, with effect from 1 January 2016, The Company will change the currency in which it presents its financial results and position from Hong Kong dollars (“HKD”) to RMB, in order to reduce the impact of foreign exchange movements on reported results so as to better reflect the underlying performance of the Group.

A change in presentation currency represents a change in accounting policy which is accounted for retrospectively. The comparative figures in these interim financial information were translated from HKD to RMB using the applicable closing rates for items in the condensed consolidated balance sheet and applicable average rates that approximated to actual rates for items in the condensed consolidated profit and loss account and condensed consolidated statement of comprehensive income.

7. Turnover and segment information

Segments are reported in a manner consistent with the internal reporting or resource allocation and assessment of the performance.

In prior years, management assesses the performance of the Group by the following business segments:

- Retail
- Beer
- Food
- Beverage

In 2016, following completion of the disposal of all non-beer businesses and change in management organisational structure, management has revisited the existing management reporting structure and considered a change of operating segments from business to regional perspective as a more relevant performance measurement basis to be used in the Group’s internal financial and management reporting. As such, management has re-determined the regional segments of the remaining beer business for the manufacturing and distribution of beer production on these reports by the following segments:

- Eastern region represents Northeast and Eastern coastal regions of China.
- Central region represents other than those included in Eastern region and Southern region.
- Southern region represents Southeast and Southwest of China.

Information for the period ended 30 June 2015 that is presented for comparative purposes has been represented accordingly. The change in segment reporting does not have an impact on the financial position, financial performance or cash flows.

7. Turnover and segment information (continued)

	Continuing Operations					Discontinued operations ¹	Elimination	Total
	Eastern region	Central region	Southern region	Corporate / Elimination	Beer			
	RMB million	RMB million	RMB million	RMB million	RMB million	RMB million	RMB million	RMB million
For the six months ended								
30 June 2016								
Turnover								
External sales	7,840	3,662	3,711	-	15,213	-	-	15,213
Inter-segment sales ²	237	23	150	(410)	-	-	-	-
Total	8,077	3,685	3,861	(410)	15,213	-	-	15,213
Segment result³	762	227	700		1,689	-		1,689
Unallocated corporate expenses					(32)	-		(32)
Interest income					26	-		26
Finance costs					(80)	-		(80)
Profit before taxation					1,603	-		1,603
Taxation					(383)	-		(383)
Profit for the period					1,220	-		1,220
Other information								
Additions to non-current assets ⁴	259	132	260	-	651	-		651
Depreciation and amortisation	456	199	194	1	850	-		850
Impairment loss recognised	2	6	-	-	8	-		8
For the six months ended								
30 June 2015, as restated								
Turnover								
External sales	7,896	3,783	3,744	-	15,423	59,398	-	74,821
Inter-segment sales ²								
- discontinued operation	61	10	5	-	76	-	(76)	-
	7,957	3,793	3,749	-	15,499	59,398	(76)	74,821
Inter-segment sales ²								
- continuing operation	492	74	67	(633)	-	-	-	-
Total	8,449	3,867	3,816	(633)	15,499	59,398	(76)	74,821
Segment result³	675	108	408		1,191	(1,828)		(637)
Unallocated corporate expenses					(9)	(74)		(83)
Interest income					73	110		183
Finance costs					(73)	(153)		(226)
Loss on re-measurement of disposal group ⁵					-	(1,756)		(1,756)
Profit/(loss) before taxation					1,182	(3,701)		(2,519)
Taxation					(346)	(602)		(948)
Profit/(loss) for the period					836	(4,303)		(3,467)
Other information								
Additions to non-current assets ⁴	241	493	304	-	1,038	1,910		2,948
Depreciation and amortisation	477	195	205	-	877	1,367		2,244
Impairment loss recognised	5	2	3	-	10	2,476		2,486

1. The Group's non-beer businesses were disposed on 1 September 2015. The results of the non-beer businesses were classified as discontinued operations accordingly.
2. Inter-segment sales were charged at prevailing market rates.
3. Segment result represents earnings before interest income, finance costs and taxation.
4. Additions to non-current assets included fixed assets, goodwill and other intangible assets.
5. The Group has recognised a loss of RMB1,756 million (equivalent to HK\$2,222 million) in relation to the re-measurement of disposal group to the fair value less cost to sell.
6. The Group's retail segment had made an impairment on goodwill amounting to RMB1,990 million (equivalent to HK\$2,518 million), following management's assessment of its performance as a results of challenging environment of industry and keen competition.

8. Other income

	Six months ended 30 June	
	2016	2015
	RMB million	RMB million
		(Restated)
Other income includes the following:		
Continuing operations		
Interest income	26	73

9. Finance costs

	Six months ended 30 June	
	2016	2015
	RMB million	RMB million
		(Restated)
Continuing operations		
Interest on bank loans and other loans	57	55
Financing charges (including exchange gain or loss)	23	21
	80	76
Less: Amount capitalised in cost of qualifying assets	-	(3)
	80	73

10. Taxation

	Six months ended 30 June	
	2016	2015
	RMB million	RMB million
		(Restated)
Continuing operations		
Chinese Mainland income tax		
Current taxation	374	503
Deferred taxation	9	(157)
	383	346

Hong Kong Profit Tax is calculated at 16.5% (2015: 16.5%) on the estimated assessable profits for the period.

Chinese Mainland income tax is calculated at 25% (2015: 25%) on the estimated assessable profits for the period.

11. Profit for the period

	Six months ended 30 June	
	2016	2015
	RMB million	RMB million
		(Restated)
Profit for the period has been arrived at after charging/(crediting):		
Continuing operations		
Depreciation		
- Owned assets	838	865
Amortisation of other intangible assets	12	12
Impairment loss recognised on		
- Fixed assets	3	2
- Stocks	5	8
Cost of goods sold	10,093	10,305
(Gain)/loss on disposal of fixed assets	(12)	6

12. Dividends

At the board meeting held on 18 March 2016, the Board did not recommend the payment of final dividend (2015: HK\$0.16 per ordinary share for the year ended 31 December 2014 in cash form, with an option to receive new and fully paid shares of the Company in lieu of cash).

At the board meeting held on 19 August 2016, the Board has resolved not to declare an interim dividend for the six months ended 30 June 2016 (2015: no interim dividend was paid).

13. Earnings/(losses) per share

The weighted average numbers of ordinary shares used in the calculation of earnings/(losses) per share have been adjusted for the bonus element of the rights issue following the allotment and issuance of the rights shares on 18 August 2016 and prior period comparative had also been restated for such effect.

	2016	2015 (Restated)
Number of shares		
Weighted average number of ordinary shares for the purpose of calculating basic and diluted earnings/(losses) per share	2,654,463,670	2,641,625,936
	2016 RMB million	2015 RMB million (Restated)
The calculation of the basic and diluted earnings/(losses) per share is based on the following data:		
Earnings/(losses)		
Profit attributable to shareholders of the Company for continuing operations	605	417
Loss attributable to shareholders of the Company for discontinued operations	-	(3,837)
	605	(3,420)
	2016 RMB	2015 RMB (Restated)
Basic and diluted earnings/(losses) per share		
- From continuing and discontinued operations	0.23	(1.29)
- From continuing operations	0.23	0.16
- From discontinued operations	-	(1.45)

The denominators used are the same as those detailed above for both basic and diluted earnings/(losses) per share.

14. Trade and other receivables

Included in trade and other receivables are trade receivables and their aging analysis is as follows:

	At 30 June 2016 RMB million	At 31 December 2015 <i>RMB million</i> <i>(Restated)</i>
0 – 30 days	447	113
31 – 60 days	87	82
61 – 90 days	106	68
> 90 days	281	297
	921	560

The Group normally trades with its customers under the following credit terms:

- (a) cash upon delivery; or
- (b) open credit from 30 to 90 days

15. Trade and other payables

Included in trade and other payables are trade payables and their aging analysis is as follows:

	At 30 June 2016 RMB million	At 31 December 2015 <i>RMB million</i> <i>(Restated)</i>
0 – 30 days	2,209	1,373
31 – 60 days	56	42
61 – 90 days	22	26
> 90 days	95	60
	2,382	1,501

MANAGEMENT DISCUSSION AND ANALYSIS

REVIEW OF OPERATIONS

Continuing operations

The Group's continuing operations reported turnover and attributable profit of RMB15,213 million and RMB605 million, respectively, for the first half of 2016. This represents a decrease of 1.8% and an increase of 45.1%, respectively, over the same period in last year. EBIT for the first half of 2016 improved by 40.2% to RMB1,657 million, as compared with the same period in last year.

During the period under review, overall sales volume of the beer industry was affected by the lackluster macro economy, the decline in consumer spending appetite and the unfavorable weather conditions in mainland China, especially the rainstorms in the mid-lower reaches of the Yangtze River and parts of southern China.

In the first half of 2016, the beer sales volume of the Group decreased by 1.9% to approximately 6,128,000 kiloliters as compared to the same period in last year. The performance was better than the industry average. This is mainly contributed by enhanced production capacity, tailored sales strategies to local markets, established closer long-standing relationships with local distributors and expansion in market coverage through strong promotions. The national brand “雪花 Snow” accounted for approximately 90% of total beer sales volume of the Group business. Due to the continuous efforts of the Group in optimizing its product mix, mid- to high-end beer products maintained growth in sales volume. This leads to the overall average selling price increased slightly in the first half of 2016 as compared to the same period in last year, despite the turnover decreased in the first half of 2016.

Two large sports events — the Union of European Football Associations (“UEFA”) EURO and the Olympic Games — are set to take place in 2016. The Group has launched a thematic promotional activity “SNOW's First Game” during the UEFA EURO in the review period, to enhance the brand awareness through targeted promotions and publicity for its products. In addition, the Group has established partnerships with some large domestic e-commerce platform providers to build up platforms and launch online marketing campaigns to match with the industry's channel development in the long run. The Group also concentrated resources on several large promotional campaigns, including the “Great Expedition, Challenge the Unclimbed by College Students”, to reinforce the promotion of the mid-end products “Brave the World” series. Besides, the Group utilized the national photo competition on ancient Chinese architecture “Snow Draft Beer Ingenuity in Craft” as the key event for promoting its high-end beer series such as “Snow Draft Beer”.

During the period under review, the operating profit of the Group grew through reduction in certain material costs and better use of selling expenses. As at the end of June 2016, the Group operated 98 breweries in 25 regions in mainland China, with an aggregate annual production capacity of approximately 22,000,000 kiloliters.

Looking ahead, in response to the extended sluggish macro economy, the fluctuation in overall beer market consumption and intensified industry competition, the Group will ramp up the promotion of mid- to high-end beer products; enhance its product mix and product quality to meet the customers' needs. The industry remains competitive, the savings in selling expenses in the first half of 2016 may not be sustainable in the rest of the year. The Group will also adjust its selling strategy and cost incurrence depending on competitive environment and market situation.

The Group will focus its resources on marketing campaigns and promotional activities of “雪花 Snow” brand to strengthen its brand reputation and customer loyalty. The Group will also seek greater value through synergies created by its mergers and acquisitions. Meanwhile, the Group will increase its regional presence through organic growth as well as evaluate potential investment opportunities to expand our business, so as to ensure its leading market position.

FINANCIAL REVIEW

Capital and Funding

As at 30 June 2016, the Group’s consolidated cash and bank balance amounted to RMB4,538 million. The Group’s borrowings as at 30 June 2016 were RMB4,531 million with RMB855 million repayable within 1 year, RMB3,675 million repayable after 1 year but within 5 years and RMB1 million repayable after 5 years.

The Group was at a net cash position as at 30 June 2016. On the basis of the Group’s net borrowings relative to the shareholders’ funds and non-controlling interests, the Group’s gearing was approximately at 13.9% as at 31 December 2015.

The Group’s principal assets, liabilities, revenue and payments are denominated in Hong Kong dollars, Renminbi and US dollars. As at 30 June 2016, 28.8% of the Group’s cash deposit balances were held in Hong Kong dollars, 47.1% in Renminbi and 24.1% in US dollars; whereas more than 99.9% of the Group’s borrowings was denominated in Hong Kong dollars. The Group’s borrowings are principally on a floating rate basis.

Pledge of Assets

As at 30 June 2016, assets with a carrying value of RMB109 million (31 December 2015: RMB125 million) were pledged for bank loans and notes payable.

Contingent Liabilities

The Group did not have any material contingent liabilities as at 30 June 2016.

Employees

As at 30 June 2016, the Group had a staff size of around 59,400, amongst which more than 99% were employed in the Chinese Mainland, whilst the rest were mainly in Hong Kong. Remuneration packages are assessed in accordance with the nature of job duties, individual performance and market trends with built-in merit components, paid in the form of cash bonuses.

CORPORATE GOVERNANCE

The Company recognises that the development and maintenance of a good and solid framework of corporate governance suitable to the needs of the Group requires commitment and continuous vigilance. The Directors firmly believe that sensible corporate governance practice is essential to vigorous but steady growth of the Group.

The Company has implemented its own corporate governance standards and objectives since November 2003. On 8 April 2005, the Board approved the Company’s “Corporate Governance Practice Manual” (“Corporate Governance Manual”). The Corporate Governance Manual, which

was revised on 31 March 2009, 18 November 2010, 21 March 2012, 7 December 2015 and 18 March 2016, incorporates almost all of the Code Provisions set out in the Corporate Governance Code (“CG Code”) contained in Appendix 14 of the Listing Rules. The Corporate Governance Manual can be downloaded from our website and copies are available on request to the Company Secretary.

The Company has complied with the Code Provisions set out in the CG Code during the period, save and except the following:

In respect of Code Provision A.4.1 of the CG Code, all the non-executive Directors are not appointed for a fixed term. The Board does not believe in any arbitrary term of office. The current arrangement will give the Company sufficient flexibility to organize the composition of the Board to serve the needs of the Group. Further, the Articles of Association of the Company requires that one-third of the Directors (including executive and non-executive Directors) shall retire each year and every director shall be subject to retirement by rotation at least once every three years. The Directors to retire each year shall be those appointed by the Board during the year and those who have been longest in office since their election or re-election. A retiring Director is eligible for re-election.

In respect of Code Provision A.5.6 of the CG Code, the Board did not have a policy concerning diversity of the Board members but the Board is actively considering the adoption of the relevant policy.

In respect of Code Provision C.1.2 of the CG Code, the Company has not provided all members of the Board with monthly updates to enable the Board as a whole and each Director to discharge their duties. However, the Company has based on business situation, provided to the Board from time to time, updated business information to enable the Board as a whole and each Director to discharge their duties.

In respect of Code Provision D.1.4 of the CG Code, the Company did not have formal letters of appointment for Directors. However, the Directors are subject to retirement by rotation at least once every three years in accordance with the Articles of Association of the Company. In addition, the Directors are required to refer to the guidelines set out in “A Guide on Directors’ Duties” issued by the Companies Registry and “Guidelines for Directors”, and, if applicable, “Guide for Independent Non-Executive Directors” published by the Hong Kong Institute of Directors in performing their duties and responsibilities as Directors of the Company. Besides, the Directors are required to comply with the requirements under the Listing Rules, legal and other regulatory requirements.

On 8 April 2005, the Company has adopted its own Code of Ethics and Securities Transactions (“Code of Ethics”) which apply to the Directors and other specified individuals including the Group’s senior management and persons who are privy to inside information of the Group. To further improve the effectiveness in the actual application of the Code of Ethics, the Company has since fine-tuned the Code of Ethics on 6 April 2006, 4 April 2007, 31 March 2008, 31 March 2009, 18 November 2010 and 7 December 2015 (“New Code of Ethics”). Both the Code of Ethics and the New Code of Ethics are on terms no less exacting than the required standard set out in the Model Code for Securities Transactions by Directors of Listed Issuers (“Model Code”) in Appendix 10 of the Listing Rules. Having made specific enquiry of all Directors, the Company is not aware of any non-compliance with the standards set out in the Code of Ethics, the New Code of Ethics and the Model Code by any Director throughout the interim period.

PURCHASE, SALES OR REDEMPTION OF LISTED SECURITIES

Neither the Company nor its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the six months ended 30 June 2016.

By order of the Board
CHEN LANG
Chairman

Hong Kong, 19 August 2016

As at the date of this announcement, the Executive Directors of the Company are Mr. Chen Lang (Chairman), Mr. Wang Qun (Vice Chairman), Mr. Hou Xiaohai (Chief Executive Officer) and Mr. Lai Po Sing, Tomakin (Chief Financial Officer). The Non-executive Director of the Company is Mr. Chen Rong and Mr. Lai Ni Hium, Frank. The Independent Non-executive Directors of the Company are Mr. Houang Tai Ninh, Dr. Li Ka Cheung, Eric, Dr. the Hon. Cheng Mo Chi, Moses, Mr. Bernard Charnwut Chan and Mr. Siu Kwing Chue, Gordon.